

show that Parliament was disinclined to permit others to be used without attracting the penalties set in s 50 — *inclusio unius est exclusio alterius* (at 490). Summary judgment was thus granted against the defendants.

McDonald's Turns the Tables on Trade-Mark Hijackers

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Introduction

South African trade-mark law was thrown into turmoil in the latter half of 1995 by a remarkable decision in the Transvaal Provincial Division of the Supreme Court of South Africa in which Southwood J held that the trade mark McDONALD'S in respect of hamburgers and other fast foods, which is one of the top five trade marks in the world, was not a well-known foreign trade mark in South Africa and that a portfolio of more than 50 registered trade marks belonging to McDonald's Corporation ('MC') must be cancelled on the grounds of non-use (*McDonald's Corporation v Joburgers Drive-Inn Restaurant (Pty) Ltd & another; Dax Prop CC v McDonald's Corporation & another; McDonald's Corporation v Joburgers Drive-Inn Restaurant & another* (TPD 6 October 1995 (case nos 93/19719, 16493/94 and 11700/95) unreported).

This decision was greeted with incredulity in trade-mark legal and business circles around the world, particularly in the United States of America. It had far-reaching and significant legal, political, and commercial implications, and gave rise to the contention that South African trade-mark law does not comply with international standards for protecting foreign trade marks. Pressure to amend the law was brought to bear against the country in international circles. American and other foreign trade-mark proprietors interpreted the judgment to mean that South Africa does not adequately protect foreign trade marks, which was seen as a disincentive to extending business and investment to South Africa when the country was earnestly seeking such foreign participation in its economy. Ironically, the judgment came at a time when MC had begun to invest and open McDONALD'S restaurants in South Africa.

An appeal against the judgment of the lower court, which proceeded on an expedited basis, brought about a reversal of the judgment of the lower court (*McDonald's Corporation v Joburgers Drive-Inn Restaurant (Pty) Ltd & another; Dax Prop CC v McDonald's Corporation & another;*

McDonald's Corporation v Joburgers Drive-Inn Restaurant & another (AD 27 August 1996 (case no 547/95) unreported). The judgment of the Appellate Division found that the trade mark McDONALD'S is a well-known international trade mark in South Africa. The appeal court also declined to cancel MC's registered trade marks on the grounds of non-use.

The approach of EM Grosskopf JA, with whom the other four judges of appeal concurred, was diametrically opposed to the approach adopted by the lower court. When one considers the two judgments, it is difficult to comprehend how the two courts could have reached such contrasting judgments on the same facts and law. The purpose of this comment is to examine how the two courts came to differ so radically and fundamentally in their judgments.

The Facts and History of the Litigation

MC registered its large portfolio of trade marks — including the marks McDONALD'S and BIG MAC, and the GOLDEN ARCHES device — in South Africa from 1968. The portfolio of marks were effectively re-registered in 1974, 1979, 1980, and 1985. These marks were at no stage before 1993, when the litigation started, used in South Africa. MC asserted that its non-use of the marks was caused by sanctions imposed against South Africa by the United States government and generally by the political opprobrium attached to doing business in South Africa during the apartheid era. MC stated that it was at all times its intention to use its trade marks in South Africa as soon as political circumstances made this possible.

Joburgers Drive-Inn Restaurant (Pty) Ltd ('Joburgers') is controlled by a Mr Sombonos. He is effectively the franchiser of the widespread and successful CHICKEN LICKEN fast-food chain in South Africa. In 1993 Joburgers applied to register the McDONALD'S portfolio of trade marks in South Africa. At the same time, it instituted litigation before the Registrar of Trade Marks to cancel the McDONALD'S portfolio of registered trade marks on the basis of non-use. It soon then gave notice, through a newspaper article, of its intention to use the McDONALD'S portfolio of trade marks in South Africa. This event precipitated MC bringing trade-mark infringement proceedings against Joburgers in the Transvaal Provincial Division. Joburgers counterclaimed in this court for the cancellation of the McDONALD'S portfolio of trade marks. The pending cancellation proceedings before the Registrar of Trade Marks were abandoned. MC's trade-mark infringement proceedings met with success. An interim interdict restraining Joburgers from using the McDONALD'S portfolio of trade marks was issued by the Transvaal Provincial Division, pending the outcome of the cancellation proceedings.

At this juncture Joburgers purchased a small business in Durban which had been trading since 1978 under the style ASIAN DAWN/MACDONALD'S. Upon Joburgers becoming the owner of this ongoing business, MC brought a further application in the Transvaal Provincial

Division for an order restraining Joburgers from acting in contempt of court by trading under the mark MACDONALD'S in contravention of the interim interdict which had been issued against it. The contempt of court interdict was granted against Joburgers.

A further player now entered the scene. To avert being in contempt of court, Joburgers sold the ASIAN DAWN/MACDONALD'S business to Dax Prop CC ('Dax'). This close corporation was under the control of a Mr Charalambous. He holds several CHICKEN LICKEN franchises and thus had some association with Sombonos. Joburgers retained the right to repurchase the business from Dax in the future. Having entered the fray, Dax filed its own applications to register the McDONALD'S portfolio of trade marks in its name and brought proceedings before the Transvaal Provincial Division to cancel the McDONALD'S portfolio of trade marks registered in the name of MC. MC counterclaimed in these proceedings for an interdict restraining Dax from infringing its registered McDONALD'S portfolio of trade marks.

These proceedings, referred to respectively as the 'Joburgers case' and the 'Dax case', were ripe for hearing in the second half of 1995 when a significant event occurred. The Trade Marks Act 194 of 1993 came into operation on 1 May 1995 (Proc 40 GG 16370 of 21 April 1995). This Act provides for the owner of a well-known foreign trade mark which is unregistered in South Africa to institute infringement proceedings against someone who copies his trade mark and uses it in relation to identical or similar goods or services to those offered by the trade-mark proprietor, where such use is likely to cause deception or confusion (s 35). Once this remedy became available to MC, it instituted further proceedings, known as the 'famous marks case' against both Joburgers and Dax for an interdict restraining their use of the McDONALD'S portfolio of trade marks. All three cases were heard at the same time before and decided by Southwood J. He dismissed the famous marks case and upheld both Joburgers' and Dax's claims for the cancellation of the McDONALD'S portfolio of trade marks on the grounds of non-use. The effect of these decisions was to refuse MC's claims based upon the infringement of their registered trade marks.

In the meantime a side show involving Joburgers and the ASIAN DAWN/MACDONALD'S business took place. It will be recalled that Joburgers purchased this business which was located in Durban. While negotiations for the purchase of this business were taking place, the seller, having agreed on a particular price, became aware of Joburgers' litigation with MC and the true objective on the part of Joburgers in purchasing the business. So the seller sought to increase the purchase price. This gave rise to litigation between the seller and Joburgers. In papers before the court in those proceedings (which papers were incorporated into the evidence in the Joburgers case) it was stated by a director of Joburgers that it wished to acquire the business to secure the goodwill built up through the 18 years of use of the McDONALD'S trade mark for itself, and that, should it not

acquire the business, its position in regard to the proceedings with MC would be severely prejudiced.

Famous Marks

As it turned out the crucial issue in the McDonald's litigation was whether the trade mark McDONALD'S qualified as a well-known foreign trade mark as contemplated in s 35 and was entitled to protection under that section. EM Grosskopf JA found on the evidence and on a proper interpretation of s 35 that the trade mark McDONALD'S does qualify for such protection, whereas Southwood J found that it did not. These contrary findings played a crucial role in each of the respective judgments and led the two courts to make diametrically opposed findings on the expungement questions, too.

Section 35, which is substantially the same as s 56 of the British Trade Marks Act 1994, reads:

- '(1) References in this Act to a trade mark which is entitled to protection under the Paris Convention as a well-known trade mark, are to a mark which is well known in the Republic as being the mark of—
 - (a) a person who is a national of a convention country; or
 - (b) a person who is domiciled in, or has a real and effective industrial or commercial establishment in, a convention country, whether or not such person carries on business, or has any goodwill, in the Republic.
- '(2) A reference in this Act to the proprietor of such a mark shall be construed accordingly.
- '(3) The proprietor of a trade mark which is entitled to protection under the Paris Convention as a well-known trade mark is entitled to restrain the use in the republic of a trade mark which constitutes, or the essential part of which constitutes, a reproduction, imitation or translation of the well-known trade mark in relation to goods or services which are identical or similar to the goods or services in respect of which the trade mark is well known and where the use is likely to cause deception or confusion.'

EM Grosskopf JA, in the appeal decision, thoroughly investigated the background and purpose of s 35. His analysis is described below.

Although art 6bis was inserted into the Paris Convention for the Protection of Industrial Property in 1925, neither Britain nor South Africa gave legislative effect to it until enacting, respectively, ss 35 and 56 of their current trade-mark statutes. Britain did not legislate earlier because it previously claimed to honour the article by means of its common-law action for passing-off (see Richard C Abnett 'AIPPI: Famous Trade Marks Acquire a New Legal Weapon' December 1990/January 1991 *Trade Mark World* 23). The protection given to foreign marks by the law of passing-off was limited, however, by the requirement that a plaintiff had to establish the existence of goodwill in the country in which relief was sought; a mere reputation in the mark in that country was not sufficient (see, for example, *Alain Bernardin et Compagnie v Pavilion Properties Ltd* [1967] RPC 581 (the 'Crazy Horse' case), *The Athletes Foot Marketing Associates Inc v Cobra Sports Ltd & another* [1980] RPC 343 (Ch); and *Anheuser-Busch Inc v Budejovicky Budvar Narodni Podnik (t/a Budweiser Budvar Brewery) & others* [1984] FSR 413 (CA).

The South African courts adopted a similar approach. They, too, refused claims of passing-off where a reputation in a mark might have existed but the plaintiff enjoyed no goodwill in South Africa (for example, *Slenderella Systems Inc of America v Hawkins & another* 1959 (1) SA 519 (W) at 521A–522B; *Lorimar Productions Inc & others v Sterling Clothing Manufacturers (Pty) Ltd* 1981 (3) SA 1129 (T) at 1138H–1140H; *Tie Rack plc v Tie Rack Stores (Pty) Ltd & another* 1989 (4) SA 427 (T) at 442G–445D).

EM Grosskopf JA concluded that the purpose of s 35 and its British counterpart was to amend the common law of passing-off to make it sufficient for a plaintiff to show that his mark enjoys a reputation in the country where relief is sought; it is not necessary that the plaintiff should have conducted business in that country or enjoy goodwill there (at 33). The judge noted that s 35 pertinently extends protection to the owner of a foreign trade mark 'whether or not such person carries on business, or has any goodwill, in the Republic'. He said that the type of protection afforded by s 35(3) is typical of that which is available at common law in the event of passing-off. He concluded that it is against this historical background that the phrases 'well-known trade mark' and 'well known in the Republic' must be interpreted. He commented, without deciding the point, that it is possible that, to enjoy the protection of s 35, a foreign trade-mark proprietor may have to prove a greater public awareness of its marks than is required of a local business claiming passing-off (at 34–35).

In keeping with a passing-off approach, the judge found that, to enjoy the benefit of s 35, the foreign trade-mark proprietor must show that a substantial number of the class of persons who would have an interest in the goods or services of the foreign trade-mark proprietor (potential customers) would know the foreign trade mark and would be confused by its use by someone else in relation to the relevant goods and/or services.

Evidence of the Repute of McDONALD'S

MC had approached the question of establishing that the trade mark McDONALD'S is well known in South Africa and is entitled to protection under s 35 entirely in accordance with the above interpretation of the section. It had two market surveys conducted to establish the notoriety of the trade mark McDONALD'S. These surveys were conducted in the Johannesburg/Pretoria and Durban areas among the upper-income groups — people most likely to have travelled overseas and to have been exposed to spillover advertising of the McDONALD'S trade mark in South Africa through its incorporation in television broadcasts, feature films, foreign publications, and the like. These surveys showed that some 80 per cent of the so-called universe (the target sector of the population covered by the survey) consulted knew that the trade mark McDONALD'S belonged to a foreign company. EM Grosskopf JA held this market-survey evidence

was admissible and had probative value. It corroborated other evidence on the notoriety of the McDONALD'S trade mark adduced by MC.

The acceptance of this market-survey evidence is of great significance, as this case marks the first occasion in South Africa on which such evidence has been found to be admissible and have probative value. I will revert to the question of market-survey evidence below.

MC faced a difficult task in proving the existence of a reputation in the trade mark McDONALD'S in South Africa in circumstances where the mark had never been used in this country. Recourse could not be had to the normal way of proving the subsistence of goodwill and reputation in passing-off cases. Apart from the market-survey evidence, MC relied on the evidence of a Mr Collins, a former chairman of the South African Franchise Association. He said that in his representative capacity he had received 'numerous requests, too numerous even to be counted' (quoted at 49) from prospective franchisees and ordinary members of the public for advice on how to become a McDONALD'S franchisee. He also testified that he had addressed many meetings, conferences, and seminars on various aspects of franchising. During these addresses he had held up the business format of MC in conducting franchising as an example and had received many questions about MC and its business system. He also said that MC was frequently discussed in the South African press and media. Joburgers and Dax did not deny statements in MC's evidence that it is one of the largest — if not *the* largest, franchiser of fast-food restaurants in the world, that there were 13 993 McDONALD'S restaurants spread over 70 countries, that the annual turnover of these restaurants exceeded \$23,5 billion, that \$900 million was spent annually on advertising these restaurants, and that the McDONALD'S trade marks are in all probability some of the best-known trade marks in the world.

MC demonstrated that between 1975 and 1993 it had received 242 requests from South Africans, many of whom were prominent trading companies, to conclude franchising agreements with them. Correspondence embodying these requests had been placed in a bundle which had been referred to in the affidavits filed on behalf of MC. As undertaken in the affidavits, this bundle was handed up to Southwood J at the start of the hearing in the lower court.

EM Grosskopf JA attached considerable significance to the conduct of Joburgers and Dax which gave rise to the litigation. To him their conduct indicated the notoriety of the trade mark McDONALD'S in South Africa. He noted that the word 'McDonald's' of itself had no inherent value as a trade mark for fast food and for fast-food outlets (at 46). He thought that the lengths to which the respondents had gone in building up their claim to the McDONALD'S trade mark and contesting the litigation clearly indicated that significant value and reputation attached to the McDONALD'S trade mark in South Africa (at 46–48). He expressly referred to Joburgers' conduct in connection with the acquisition of the ASIAN DAWN/MACDONALD'S business in Durban. It was quite clear to the judge that

the whole objective of the exercise on the part of Joburgers and Dax was to benefit from the considerable reputation which the trade mark McDONALD'S enjoyed in South Africa in relation to fast foods and fast-food outlets.

EM Grosskopf JA summarized his conclusions in regard to MC's evidence about the notoriety of the McDONALD'S trade mark in South Africa as follows:

'The evidence adduced by McDonald's leads, in my view, to the inference that its marks, and particularly the mark McDONALD'S, are well known amongst the more affluent people in the country. People who travel, watch television, and who read local and foreign publications, are likely to know about it. They would have seen McDonald's outlets in other countries, and seen or heard its advertisements there or its spillover here in foreign journals, television shows, etc. Although the extent of such spillover has not been quantified it must be substantial. Moreover, as has been shown, McDonald's has also received publicity in the local media. The market survey evidence specifically related to two groups of adult white persons living in relatively affluent suburbs of Gauteng and KwaZulu Natal. It is reasonable to suppose that much the same results would be achieved elsewhere among persons of all races who have a similar financial and social background. These are also the type of people who would have heard about McDonald's and its marks from Collins, or who would have discussed these matters with him, or would have written to McDonald's to solicit a franchise agreement' (at 62-64).

Misdirections of the Lower Court

On the strength of the above, the finding by Southwood J — that McDONALD'S was not shown to have been a well-known foreign trade mark in South Africa — was surprising. However, it emerges clearly from the judgment on appeal that in dealing with this aspect of the case Southwood J made fundamental errors in regard to both the law and the facts.

At the outset, he misconstrued the intention and interpretation of s 35. He ruled that, to enjoy the protection of s 35, MC would have to show, in respect of the McDONALD'S trade mark, (a) that knowledge of the notoriety of the mark pervades the country to a substantial extent (it must be well known across South Africa); (b) that the mark is well known to all ethnic groups at all levels of society; (c) that the mark is well known as being a mark of a person who is a national of, or is domiciled in, or has a real and effective industrial or commercial establishment in, a country which is a member of the Paris Convention (this would entail knowledge that the country of origin of the mark has acceded to the Paris Convention); and (d) that the use of the McDONALD'S mark by other parties would be likely to cause deception or confusion (at 18-21).

With regard to (c), EM Grosskopf JA said (at 20):

'If it were correct the section would be a dead letter. It is difficult to imagine any mark, however well known, in respect of which such further facts would be common knowledge.'

On appeal, counsel for the respondents conceded that this requirement could not be supported.

In regard to (a), Southwood J relied upon the Canadian case of *Robert C Wian Enterprises Inc v Mady* (1965) 49 TLR (2d) 65. EM Grosskopf JA found that the views expressed in that case were based on Canadian legislation which differs from s 35, so that that case was not 'of any assistance' (at 43). He also noted that later Canadian cases had differed from the views expressed in *Wian* (at 43-44).

As to (b), EM Grosskopf JA noted that the South African population is diverse in many respects (such as income, education, and cultural values) and said that if protection is to be granted only to marks which are known, let alone well known, to every segment of the population, or even to most segments of the population, there would be very few marks, if any, which would pass the test (at 36). The section would then not achieve its purpose. The appeal judge accordingly rejected Southwood J's interpretation of s 35.

On the question of the likelihood that the use of the MACDONALD'S trade mark by Dax and Joburgers may cause confusion, which Southwood J held had not been established, EM Grosskopf JA stated that '[i]t almost goes without saying that if the MACDONALD'S mark is used as contemplated by Joburgers and Dax in relation to the same type of fast food business as that conducted by McDonald's it would cause deception or confusion' (at 65-66).

Southwood J considered the evidence adduced by MC against the wrong criterion as to what had to be proved and what MC sought to establish, and rejected the market-survey evidence as hearsay and inadmissible, and in any event of no weight.

In sharp contrast to EM Grosskopf JA's perspective on the evidence, Southwood J paid no attention at all to the motivation of Joburgers and Dax in attempting to appropriate for themselves the McDONALD'S trade mark and the complete portfolio of MC's registered trade marks. Whilst it was obvious to EM Grosskopf JA why Joburgers and Dax went to the considerable trouble and expense to attempt to acquire ownership of the trade marks in question, these considerations apparently did not occur to Southwood J at all. He made no mention of the litigation between Joburgers and the seller of the ASIAN DAWN/MACDONALDS business, which was regarded as significant by the appeal court. He summarily dismissed Collins' evidence as hearsay and inadmissible on the basis that it was an 'informal market survey' (at 26).

Southwood J declined to receive the bundle of correspondence with the 242 prospective franchisees which was handed up to him. Instead, he referred only to extracts from the bundle annexed to the respondents' evidence and found that there had been only some 50 approaches over 25 years. By contrast, EM Grosskopf JA accepted there had been approaches from 242 enquirers in eighteen years.

Southwood J stated that there was no evidence on the spillover effect of international advertising of the McDONALD'S trade mark in South Africa. He found that MC's evidence had failed to establish that its

McDONALD'S trade mark or any of its trade marks were well known in South Africa.

The trial judge's approach to the evidence of the notoriety of the McDONALD'S trade mark in South Africa was unsatisfactory and did not accord with the realities of the matter and the practicalities of the modern marketplace, especially the media which operates in it. One's impression is that the judge did not properly come to grips with what the case was really all about — an opportunistic attempt on the part of Joburgers and Dax to reap from a fertile and cultivated field where they had not sown anything.

EM Grosskopf JA pointed out that the evidence of the notoriety of the McDONALD'S trade mark was circumstantial. Relying on *R v De Villiers* 1944 AD 493, he indicated that the correct approach to circumstantial evidence was that the court should not take each circumstance separately and give the respondent the benefit of any reasonable doubt as to the inference to be drawn from it; rather, the court must carefully weigh up the cumulative effect of all circumstances together and must draw inferences and conclusions arising from this holistic approach. The judge said that '[t]he approach of the court a quo was to analyse each item of evidence and to show that, by itself, it has little or no probative value. In my view this is a wrong approach' (at 61).

Market-Survey Evidence

Essentially, Southwood J misconceived what would have to be shown by MC in regard to the McDONALD'S trade mark to have that mark qualify for protection under s 35. Put simply, he posed the wrong test for what had to be proved and then wrongly evaluated the sufficiency of the evidence adduced by MC to meet the requirements of the section. His application of the wrong test manifested itself in particular in his consideration of MC's market-survey evidence.

Southwood J was stridently dismissive of this evidence. He took the view that the universe selected for the market-survey evidence was inappropriate and too small. He was, however, measuring it against the wrong yardstick — whether it showed that knowledge of the mark pervaded the entire country to a substantial extent and was had by all ethnic groups at all levels of society. In the light of the true test (which is what the surveys had been designed to meet), his criticism of the scope of the universe of the market surveys was unfounded and his whole perspective of the market-survey evidence skew.

As mentioned, he held that the market-survey evidence was inadmissible hearsay and in any event carried no weight. These conclusions were based to a considerable extent on perceived wrong procedures and faults in the questionnaires used in the surveys (such as the questions posed), the procedures followed, and the conclusion drawn from the results of the survey. In this respect the Appellate Division disagreed with him.

Before conducting the market surveys which were adduced in its evidence, MC made an intensive investigation of South African and foreign authorities on the acceptability of market-survey evidence. The dicta in South African cases dealing with this type of evidence were carefully considered. These cases included *Hoechst Pharmaceuticals (Pty) Ltd v The Beauty Box (Pty) Ltd (In Liquidation)* 1987 (2) SA 600 (A); *Rusmarc (SA) (Pty) Ltd v Hemdon Enterprises (Pty) Ltd* 1975 (4) SA 626 (W) at 629D-631B; *Die Bergkelder v Delheim Wines (Pty) Ltd* 1980 (3) SA 1171 (C) at 1177E-1182E; *Kreepy Krauly (Pty) Ltd v Poolcraft, Germiston & another* (TPD 24 December 1993, unreported). Regard was also had to certain foreign authorities, such as *Anheuser-Busch Inc v Budejovicky Budvar Narodni Podnik* supra and *Imperial Group PLC & another v Philip Morris & another* [1984] RPC 293. The *Anheuser-Busch* case said that market-survey evidence may be relied upon as corroborating the rest of the evidence as a whole. Generally, the South African cases held either that market-survey evidence was inadmissible or that the evidence in question carried no weight. There was no precedent of a South African court having admitted and relied upon market-survey evidence as having probative value.

The guidelines set in *Imperial Group* had been referred to with approval in *Kreepy Krauly* as laying down the criteria for an acceptable survey. MC accordingly prepared its market-survey evidence to meet these criteria. They were: (a) Interviewees must be selected so as to represent a relevant cross-section of the general public. (b) The size of the sample interviewed must be statistically significant. (c) The survey must be conducted fairly. A key part of the survey evidence would be a well-drafted affidavit from the expert who devised and conducted the survey. (d) All the surveys carried out must be disclosed to the opposing party. (e) All answers must be disclosed to the opposing party. (f) There must be no leading or suggestive questions, and interviewees must not be encouraged to speculate about matters of which they would never have thought if they had not been questioned. (g) The verbatim answers of all interviewees must be recorded. (h) All instructions to interviewers must be disclosed to the opposing party. (i) Any coding instructions should be disclosed to the opposing party.

It was contended by MC that the market-survey evidence as presented by it complied fully with these criteria. A Mr Corder who conducted the market surveys and who presented the evidence relating to the market surveys had conducted more than 3 000 surveys and was a fully qualified market researcher. The universe which was sampled was selected by using scientific sampling procedures. The questionnaire which was used in the surveys were annexed to Corder's surveys and contained no leading or suggestive questions. All answers given by the interviewees were reflected in computer tables, included in the evidence. Also, copies of the answers given by each interviewee were tendered to the opposing parties for inspection (they did not use this opportunity). All instructions given to

interviewers were disclosed. The interviews were conducted under Corder's strict supervision and control and in accordance with his instructions, as verified by him in back checks. Affidavits by the various interviewers who conducted the surveys in practice were filed; in these affidavits, the interviewers confirmed that they had conscientiously carried out Corder's instructions.

MC argued that the market-survey evidence should be admitted, as it was opinion evidence of a scientific nature or related to a state of mind. EM Grosskopf JA doubted whether either leg of this argument was correct. He found, however, that it was not necessary to decide the issue, as, even if the market-survey evidence was hearsay, it was admissible under one of the exceptions in s 3(1)(c) of the Law of Evidence Amendment Act 45 of 1988 (they provide for the admission of hearsay evidence in certain circumstances). This subsection allows the admission of hearsay evidence if

'the court, having regard to —

- (i) the nature of the proceedings;
- (ii) the nature of the evidence;
- (iii) the purpose for which the evidence is tendered;
- (iv) the probative value of the evidence;
- (v) the reason why the evidence is not given by the person upon whose credibility the probative value of such evidence depends;
- (vi) any prejudice to a party which the admission of such evidence might entail; and
- (vii) any other factor which should in the opinion of the court be taken into account, is of the opinion that such evidence should be admitted in the interests of justice.'

The appeal judge reasoned as follows in support of his ruling that the market-survey evidence was admissible under this exception:

'In the present case the evidence is tendered, broadly speaking, to show the extent to which the name McDonald's and its trade marks are known amongst the public. In theory the best way of doing this would probably be by calling a representative sample of the public as witnesses. Expert evidence would explain how the sample was selected and what conclusions could be drawn from the results. This would, however, not be a practical course to follow. First, it would require the evidence of a large number of people. Second, the persons comprising such a sample should of course have no interest in the outcome of the proceedings. It is consequently unlikely that such persons, or most of them, would be prepared to become involved in the litigation. A properly conducted market survey places the replies of such people before the court without requiring affidavits from them. No substantial disadvantage flows from this course. It seems most unlikely that any interviewees would lie in a matter such as his or her knowledge of McDonald's, and in any event the theories underlying such surveys make allowances for a certain margin of error. There can be no prejudice to the other parties. They are given a full opportunity to check the results of the survey' (at 58-59).

In admitting and relying upon the market-survey evidence, this judgment of the Appellate Division is a landmark in South African law.

Dax's Special Defence

At the launching of the famous marks case Dax was the proprietor of the ASIAN DAWN/MACDONALDS business which had operated in Durban since 1978. Dax had, of course, purchased that business from Joburgers when that company had been held to be in contempt of court for

trading in contravention of the interim interdict which had been granted against it by the Transvaal Provincial Division. Based on these facts, Dax sought to rely on s 36(2) of the Trade Marks Act: it contended that MC could not restrain its use of the McDONALD'S trade mark 'in relation to goods or services in respect of which . . . [it] or a predecessor in title has made continuous and bona fide use of the trade mark'.

In *Rembrandt Fabrikante en Handelaars (Edms) Bpk v Gulf Oil Corporation* 1963 (3) SA 341 (A) at 351 it was said that a 'user for an ulterior purpose, unassociated with a genuine intention of pursuing the object for which the Act allows the registration of a trade mark and protects its use, cannot pass as a bona fide user'. On the strength of this passage, the appeal court in *McDonald's* held that bona fide use of a trade mark within the meaning of s 36(3) must be use for the purpose of distinguishing goods or services provided under that mark from the same kind of goods and services connected in the course of trade with any other person, and must not be use for an ulterior purpose. The court noted that Joburgers was Dax' immediate predecessor in title and its purpose in using the McDONALD'S trade mark (in breach of the interdict) was not to distinguish its business from that of other but rather the converse — to use a mark confusingly similar to MC's, which is clearly an ulterior purpose in the sense discussed in *Rembrandt*. Accordingly, the court held that Dax could not rely on such earlier use, as the use of its immediate predecessor in title had not been bona fide.

Expungement Applications

Having held that MC had established that the McDONALD'S trade mark is a well-known trade mark entitled to protection in terms of s 35, and that MC was entitled to restrain Joburgers and Dax from using the mark, the appeal court summarily dismissed their expungement applications. The court held that it had an overall discretion to refuse an expungement application whatever its merits might be. The court also held that, in exercising this discretion, it could take into account events which took place after the institution of the expungement proceedings — the existence of a cause of action under the 1993 Act.

This is the second landmark in this case: various courts had debated whether such discretion existed as a result of the language of the relevant section which stated that the court or the registrar 'may' order the cancellation of a mark. EM Grosskopf JA said that, in the light of the fact that both Joburgers and Dax would be restrained from using the McDONALD'S trade mark, the court would exercise its discretion in favour of refusing the expungement applications, so that no purpose would be served by going into the merits of the expungement applications.

In reaching its decision on this issue, the court reviewed the South African authorities and noted that the matter was still open. It observed that the

parties to the case and the lower court accepted that such discretion existed. The court continued:

'The circumstances of the present case show, in my view, how desirable it is, from a practical point of view, that such a discretion should exist. . . . It goes without saying that a party who has shown himself entitled to relief under the section will not be deprived of such relief by the exercise of a general discretion unless the circumstances are exceptional. In my view the present circumstances are indeed exceptional' (at 75-76).

Southwood J, having reached the wrong decision in the famous marks case, had gone on to allow both expungement applications. He found, in particular, that MC had no intention of using the McDONALD'S portfolio of marks when the various applications for them had been filed and that the non-use of the marks during the relevant period had not been because of any special circumstances in the trade (which would have constituted a defence), but because of the unpreparedness on account of commercial considerations of MC to enter the South African market. Both these conclusions had been reached on the strength of statements in correspondence placed before the court. The statements had been shown by documents also before the court to be standard responses, motivated by public relations considerations. They were countered by positive statements made under oath by MC's witnesses that MC's reason for not entering the South African market had been the political prejudice which it would have suffered in the United States and elsewhere if it had traded in South Africa while the apartheid government was in power and sanctions were applied by the American government. On the basis of the approach adopted by it, it was not necessary for the appeal court to consider these questions.

Although the appeal court made no finding in regard to the balance of the marks in MC's portfolio of marks, apart from the McDONALD'S trade mark in the famous marks case, it still rejected the expungement applications in respect of all the marks in the portfolio. The court justified this approach by saying that it was common cause between the parties that the portfolio of marks should be approached on an all-or-nothing basis.

As the appeal court did not go into the merits of the expungement application, regrettably some material issues arising out of Southwood J's judgment were left unresolved. Four of them are particularly important.

First, in holding that MC registered its portfolio of trade marks without having any bona fide intention to use them in relation to the relevant goods or services, Southwood J relied on the British cases *Re Batt's Trade Mark (No 2)* [1898] 15 RPC 262 and 534 and *In re Ducker's Trade Mark* [1929] 1 Ch 113. He held that an applicant for a trade mark was required to have a 'definite and present intention to use . . . [the mark] "in the immediate future"' (at 48-52). He thought that the formulation of this principle in these two cases had been accepted by the Appellate Division in *Victoria's Secret Inc v Edgars Stores Ltd* 1994 (3) SA 739 (A). His view was at variance with the decision of the Hon WG Trollip, acting in lieu of the Registrar of Trade Marks in *Moorgate Tobacco Co Ltd v Phillip Morris Inc*, an unreported judgment delivered on 31 May 1986. In that case it

was held that at the application stage the applicant must have the intention to use the mark but not necessarily in the immediate future. As long as he had the requisite intention at the time of the filing of the application, an applicant could delay the actual commencement of his use of the mark.

In the *McDonald's* appeal, it was argued for MC that it was incorrect for the lower court to have held that the Appellate Division had approved the dictum in *Ducker's* case on this issue in *Victoria's Secret*, because it had considered the dictum for a different purpose in that case as compared to the instant one. It was also argued that it is clear from *Victoria's Secret* that the Appellate Division had never considered whether the dictum in *Ducker's* case was to be preferred to the dictum in *Moorgate*.

It was contended by MC that the approach adopted in *Moorgate* was correct and that on this test MC's delay in the commencement of the use of the McDONALD'S portfolio of trade marks did not mean that its various trade-mark applications fell foul of the 'intention to use' requirement.

Second, Southwood J was of the view that such intention as MC did have at the time of the filing of its trade-mark applications was in any event that the trade marks should be used in South Africa, not by itself, but by licensees, subsidiaries, or joint venture companies. No application had been made simultaneously with the filing of the applications to record any such parties as registered users of the mark. As a result, MC's applications also did not meet the 'intention to use' requirement on this basis. MC argued that in view of the 'trade connection doctrine' (in terms of which the existence of a licensing arrangement or some other trade connection between the trade-mark proprietor and the third party using the trade mark is sufficient to render the use of that mark by that third party use by the proprietor) the fact that MC proposed at the time of the filing of the applications to use the marks through subsidiary or joint venture companies was sufficient to meet the 'intention to use' requirement. It was argued that, in any event, in so far as the trade marks covered franchising services, MC itself proposed to use the mark in South Africa. MC relied for support on a long list of authorities, including the Australian case *Pioneer Electronic Corporation v Redge* [1978] RPC 716, the British case *British Petroleum Co Ltd v European Petroleum Distributors Ltd* [1968] RPC 54 at 63, and the South African case *Sportshoe (Pty) Ltd v Pep Stores (SA) (Pty) Ltd* 1990 (1) SA 722 (A).

Third, both Southwood J and EM Grosskopf JA refrained from ruling whether, in principle, sanctions and general inhibitions placed by the United States government, various state governments, and public opinion against United States companies doing business in South Africa constituted 'special circumstances in the trade' excusing non-use of a registered trade mark. In advancing the contention that the situation which prevailed in the United States during the sanctions era and induced MC to refrain from extending its business to South Africa constituted 'special circumstances in the trade', MC relied upon *Bali Trade Mark* [1966] RPC 387; [1969] RPC 472 where it was said that '[a] trade mark is a commercial

asset intended to be used commercially by businessmen and it seems to me that special circumstances have to be understood and applied in a business sense' (at 406 of [1966] RPC]). It was contended by MC that the facts which applied to MC's position were indeed 'special circumstances in the trade' and thus excused non-use of the trade mark during at least part of the relevant period — from 1988 to 1993.

Fourth, MC had at various intervals after 1968 re-registered its portfolio of trade marks. Southwood J held that this practice was 'systematic abuse by McDonald's of the registration process' (at 100) and took it into account as a factor which weighed against MC in the exercise of his general discretion to grant or refuse the expungement applications. MC argued that its course of action was standard practice in South Africa and pointed out that in *Origins Natural Resources Inc v Origin Clothing Ltd* [1995] FSR 280 the court held in similar circumstances that a trade-mark proprietor is fully entitled to reapply for registration of a trade mark.

These are all issues upon which guidance from the Appellate Division is most desirable, particularly because the decisions of Southwood J, which are questionable, stand in the light of the omission of the Appellate Division to deal with them.

Conclusion

In the final outcome, the appeal court granted an interdict against the use of the McDONALD'S trade mark by Joburgers and Dax in terms of s 35 and interdicts for conventional trade-mark infringement against Joburgers and Dax in respect of all the marks in MC's portfolio. The costs in all of these proceedings were awarded in favour of MC with one exception. It related to an application brought by MC at the hearing of the appeal for the court to accept evidence of certain further events which had occurred after the proceedings before Southwood J. This application was dismissed with costs.

The judgment of Southwood J was not good, for the reasons given above. Accordingly, the decision of the Appellate Division to reverse it is welcome. Southwood J's misconception of what MC had to prove in the famous marks case, and his misdirections which followed in regard to his evaluation of the evidence adduced by MC, played a significant role in his rendering a wrong judgment. They also caused him to express criticism of such evidence. By contrast, the appeal court found MC's evidence satisfactory and sufficient to establish its claim in the famous marks case. Indeed, the appeal court created a precedent in respect of the market-survey evidence.

Certain commentators on Southwood J's judgment echoed the views expressed by him in regard to MC's evidence (see, for example, Chris Job 'The McDonald's Decisions' 1996 *De Rebus* 317; Coenraad Visser 'McDonald's Fried: Foreign Trade Marks in South Africa' (1996) 4 *Juta's Business Law* 15 at 16-17). Personal views were expressed that MC had

erred in adducing defective evidence. These views are, of course, wrong and may have been expressed without making an independent study and evaluation of the evidence embodied in the court record. This perhaps highlights the risk of commentators expressing views which are based on judgments under appeal.

The decision of the Appellate Division has met with general approval in South Africa and internationally. Justice has been seen to be done. The high esteem in which South African trade-mark law has traditionally been held has been reinstated. It is possible that the decision may prove to be a leading case internationally on the question of what constitutes a 'well-known trade mark' for purposes of art 6bis of the Paris Convention, one of the topical issues of international trade-mark law. Positive benefits may ultimately flow from the actions of the trade-mark hijackers.

MORE ON THE LOCK-OUT AND THE CONSTITUTION

'[It was argued] that the principle of equality requires that, if the right to strike is included in the NT [the proposed new Constitution], so should the right to lock out be included. This argument is based on the proposition that the right of employers to lock out is the necessary equivalent of the right of workers to strike and that therefore, in order to treat workers and employers equally, both should be recognized in the NT. That proposition cannot be accepted. Collective bargaining is based on the recognition of the fact that employers enjoy greater social and economic power than individual workers. Workers therefore need to act in concert to provide them collectively with sufficient power to bargain effectively with employers. Workers exercise collective power primarily through the mechanism of strike action. In theory, employers, on the other hand, may exercise power against workers through a range of weapons, such as dismissal, the employment of alternative or replacement labour, the unilateral implementation of new terms and conditions of employment, and the exclusion of workers from the workplace (the last of these being generally called a lock[-]out). The importance of the right to strike for workers has led to it being far more frequently entrenched in constitutions as a fundamental right than is the right to lock out. The argument that it is necessary in order to maintain equality to entrench the right to lock out once the right to strike has been included, cannot be sustained, because the right to strike and the right to lock out are not always and necessarily equivalent.'

[*Certification of the Constitution of the Republic of South Africa, 1996* (CC 6 September 1996 (case no 23/96) unreported) para 66]